



# Value-Added Audits

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# Session Highlights

- Adding Value..More Than An Expression
- On the Forefront of Current Issues
- Orienting & Educating the Audit Committee
- Focus on Risk
- Recruiting and Retention...Raising the Bar
- Other Best Practices

# **Adding Value: Real Audits....Real Benefits!**

- **Officer Compensation and Expenses**
- **Employee Benefit Programs (Pensions, 401K, Medical, Dependent Health Care Eligibility, etc.)**
- **Third party vendors**
- **Contract Compliance (Structured Bid Analysis, Routine Competitive Cost Analysis, etc.)**

# **Adding Value: Real Audits....Real Benefits!**

## *Example #1: Construction Audits*

- **Labor rates excessive**
- **Travel & entertainment expenses extreme and not business related**
- **Hourly laborer claims absurd**
- **Equipment rental vs. purchases**

# Adding Value: Highlight Accomplishments!

	<u>Recoveries</u> 000's	<u>Other Identified Opportunities</u> 000's
<b>Construction Audits</b>	\$ 3,900	\$ 640
<b>Field Audits:</b>		-
<b>Administrative Offices</b>	540	625
<b>Airport Ticket Offices</b>	520	425
<b>Corporate Audits:</b>		
<b>Sales &amp; Marketing</b>	280	80
<b>Accounting &amp; Finance</b>	120	10
<b>Other</b>	270	680
<b>Total</b>	<b>\$ 5,630</b>	<b>\$ 2,460</b>

*Example Schedule-For Illustrative Purposes Only*

# Adding Value: Internal Audit Alumni

Over 50 Former Internal Auditors Continue To Add Value  
Throughout The Continental Organization...

**VP-CMI Sales & Marketing**

**Corporate Accounting Managers**

**Corporate Real Estate Managers**

**Dining Services Manager**

**Division Controllers**

**ExJet Chief Auditor**

**Finance Directors & Managers**

**International Accounting Managers**

**Sales & Marketing Directors**

**Technology Managers**

# Forefront of Current Issues

## *Sarbanes-Oxley & Corporate Governance*

### Sarbanes-Oxley Act Section 302

- **AS5 replaced AS2**
  - Reduced testing with agreement of External Auditors
- Quarterly review by Internal Audit
- Assess disclosure controls
  - CEO and CFO regular management meetings
  - Controller Meetings
  - Disclosure Checklist
  - Legal Surveys
  - Certification Letters (and backup certifications)
  - Disclosure Committees
  - Due Diligence meeting with CEO and CFO
  - Disclosure controls rolled into Key Control testing for Sarbanes-Oxley Act Section 404

# Forefront of Current Issues

## *Sarbanes-Oxley & Corporate Governance*

### Sarbanes-Oxley Act Section 404

- Assess internal control structure
  - Division Controller updates documentation
  - IA performs validation testing of controls & systems
  - 3<sup>rd</sup> party resources and tools available
- Overall assessment of controls, and certification to CEO and CFO by Internal Audit
- Management Acceptance
  - Established routine with continuous, direct communication
  - Testing coordinated with planned corporate audits (creates efficiencies and synergies)



# Forefront of Current Issues

## *Ethical Environment*

# We Don't Perfume The Pig!



# Audit Committee Orientation – Internal Audit Reports

Rating	Audit Entity	Date Completed	Follow-up Scheduled	Comments
Outstanding	XXX-ATO	1/02/07		Excellent measures identified over cash and accountable documents at this ATO.
Good	Yield Mgmt System	1/31/07		Effective measures observed in the Revenue (Yield) Management System activities.
Needs Improvement	XXX-ATO	9/16/06	Within 1 year	Enhanced controls over cash handling and accountable documents needed at this locale. For example: Monthly physical inventory of accountable documents is not performed.
Unsatisfactory	XXX-ATO	5/6/06	4 <sup>th</sup> Quarter	See detailed report attached.

# Quality Assessment Review (QAR)

## QAR – Adds Value

- Senior management and Audit Committee focus on Internal Audit function
- Best Practices
- Feedback from customers
- Everyone gets audited (including the auditors)

# Corporate Risk Assessment

## EVALUATING THE RISKS

(illustration only)

<b>\$ Impact</b>	<b>HIGH</b>	<b>Cash Mgt</b> X  <b>Aircraft Rentals</b> X	<b>Rev Mgt</b> X  <b>Advertising</b> X
	<b>LOW</b>	<b>Employee Uniforms</b> X  PAC X	<b>Company Store</b> X
		<b>LOW</b>	<b>HIGH</b>

# Field Risk Assessment

## QUANTIFYING THE FACTORS

- Criteria was established to determine a measure for the significance of the risk
- Point value of risk assigned to each factor
- Higher point value for each factor translates to HIGHER RISK

# Field Risk Assessment

## POINT SYSTEM DEFINED

### Size

Hub/Level 1=5

Level 2=3

Level 3=2

Level 4=1

### Last Audit Date

< 5 years=4

< 4 years=3

< 3 years=2

< 2 years=1

### Mgmt Change

< 1 year=4

< 2 years=3

< 3 years=2

< 4 years=1

### Unreported Sales

> \$2,500/qtr=5

> \$1,500/qtr=3

< \$1,500/qtr=1

# Field Risk Assessment

## POINT SYSTEM DEFINED

### Sales Reporting

>2 days late = 4

<2 days late = 1

### Disbursement

#### Accuracy

>50% errors = 4

>25% errors = 2

<25% errors = 1

### Deposit/Transfer

#### Frequency

High/High = 4

High/Med = 3

Med/High = 2

Low/Low = 1

# 1<sup>st</sup> Rule of Thumb in Best Practices... Recruit the Best!

- Big 4 Public Accounting Experience
- Advance Degrees/Certifications (CIA, CPA, CISA, MBA)
- Strong Interpersonal Skills
- Proven Technical Proficiency
- Preferred Industry Experience
- Culturally Diverse
- Bilingual Experts



# 2<sup>nd</sup> Rule of Thumb in Best Practices...

## Retain the Best - “*Focus on Flexibility*”

- Staggered Work Schedules
- 9/80 Work Weeks
- Compensatory Time Off
- Staff Input of Preferred Audit Project
- “Lunch & Learn” Training Sessions
- Team Building Events
- Peer Mentoring
- Perfect Attendance Program-Ford Explorer Raffle
- Identify “other” soft-dollar incentives

# Retain the Best - “*Training Techniques*”

- Formalized Training Plan (40 hours for Certified; 20 hours Non-Certified)
  - Auditing Techniques
  - Project Management
  - Communication at All Levels
- Professional Affiliation Membership & Involvement
- Leadership Development Training
  - Survey learning styles
  - Solicit input for new ideas
  - Study pitfalls and mistakes



# Even More Best Practices We Started

- Audit Rating System
- Audit Honor Roll
- “Outstanding” Plaques
- “Other” Company Personnel participate on audit
- Staff to Audit Committee Meetings
- Executive of the Month
- Recruitment Referral Bonuses
- Casual Work Environment
- Professional Affiliation Enrollment
- Monthly staff meetings
- Audit Process Satisfaction Survey



***“Try Something New!”***

# Questions and Answers

